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Alexandra M. Wilson
Chief Policy Counsel

September 9, 1998

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Magalie Salas
Secretary
Federal Communications Commission
Room 222
1919 M Street, N.W.
Washington, D.C. 20554

Re: CS Docket No. 98-102 - Oral Ex Parte Presentation

Dear Ms. Salas:

On September 9, 1998, Alex Netchvolodoff, Vice President for Public Policy, Cox Enterprises, Inc., and I met with Jane Mago, Senior Legal Advisor to Commissioner Powell, and Helgi Walker, Legal Advisor to Commissioner Furchtgott-Roth, to discuss the comments filed by Cox Communications, Inc. in the above-referenced proceeding. In accordance with Section 1.1206 of the Commission's Rules, an original and one copy of a summary of the oral ex parte presentation are attached.

Please do not hesitate to contact me should you have any questions about this matter.

Sincerely yours,

Alexandra M. Wilson
Chief Policy Counsel

Enclosure

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Competition and Cox

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In response to market demand, Cox offers its customers a range of video service options:

- Cox's basic service tier sells for around \$11.00 and contains, on average, 20 channels. It is purchased by the 5% of Cox's customers who place less value on television as an entertainment source.
- Cox's expanded basic offering is purchased by 95% of Cox's customers and, on average, contains 36 channels for around \$16.00.
- Cox's new product tier, offered by a number of Cox systems, consists of 3-6 channels and is priced between \$3.00 and \$6.00.
- Cox's analog systems also typically provide 4 premium services, 5 channels of pay-per-view and 31 channels of Music Choice. Systems offering digital service provide 5 highly-multiplexed premium services, 43 channels of pay-per-view, 40 channels of Music Choice, 3 digital tiers with an average of 8 channels per tier, and an on-screen guide.

Consumers in all of Cox's systems have a variety of options for the cable services (expanded basic and premium) for which there will be no regulatory oversight after March 31, 1999:

- All of Cox's customers have a choice of 3 DBS providers, which together are enjoying unprecedented growth. Confirming Cox's experience in the video marketplace, the Department of Justice has concluded that DBS and cable are substitutable and compete directly with each other in the same product market.
- Telephone companies have entered Cox's markets in earnest: so far, LECs have overbuilt 4 Cox systems and BOCs are providing digital MMDS in 2 other systems. The telco offerings mirror the full range of video services provided by Cox and are competitively priced.
- Cox also faces analog MMDS competition from wireless cable companies in 6 other systems.

Cox's regulated rates are reasonable:

- Cox's rate increases have been driven principally by increases in programming costs and the addition of new channels. In 1996 and 1997, fully 80% and 59%, respectively, of Cox's regulated rate increases were attributable to these two factors alone.
- Although it has spent \$3.3 billion to improve its infrastructure since the inception of rate regulation, virtually none of this capital spending has been passed through to Cox's customers in regulated rates.
- Many of Cox's systems have chosen not to pass through in regulated rates the full amount of the exogenous costs they have incurred. As of March 1998, nearly all of Cox's systems reported that they were under the maximum permitted rate.

Cox is rolling out a variety of new services over its advanced broadband networks:

- Cox currently is providing residential telephone services to MDUs in 2 of its 9 large regional clusters, and to both single family homes and MDUs in 4 additional clusters.
- Cox is selling telephone and data services to large and small businesses in 8 clusters.
- In partnership with @Home, Cox has rolled out high-speed data services to residential subscribers in 7 clusters.
- Cox has launched digital television services in 5 clusters.
- By the end of this year, roughly half of the 3.4 million homes served by Cox will be telephony-ready, and nearly 80% will be able to purchase high-speed data and digital television services.
- This competition from Cox not only has delighted its customers but also has spurred the telephone companies in Cox's markets to accelerate the introduction of their own data and video offerings.

In sum: Neither statutory nor regulatory changes are needed to ensure that Cox's rates are reasonable and that Cox's customers enjoy a range of service choices. The video marketplace is working.